

# Newsletter

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TOMORROW



105 Sea Hero Road, Suite 1, Frankfort, Kentucky 40601-8862

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## The Authority Releases New Market Timing/Excessive Trading Policy and Procedures Guidelines

The Authority Board of Trustees, at their May 26, 2004 meeting, adopted a new Market Timing/ Excessive Trading Policy and Procedures Guidelines to be effective with all trades on or after August 1, 2004. This is an extremely important policy and it is recommended that you read it carefully and contact the Authority promptly if you need additional information.

### Trading Restrictions

#### Restricted Funds:

EuroPacific Growth Fund (Class R4)  
Federated International Small Company Fund (Class A)  
Templeton Foreign Fund (Class A)

Other funds will be added upon: (a) notice from any mutual fund company of trading in violation of the fund's market timing policy; and (b) prior notice (by phone or in writing) to Plan participants. The Board reserves the right to impose trading restrictions on an immediate and timely basis in response to notice from any mutual fund company to avoid fund closure or other restrictions (including rejection of participants' trades) or costs imposed by the fund company.

#### Trading Restriction:

Limited to four trades (purchases or sales, but excluding purchases resulting from deferrals and sales to pay Plan expenses) per rolling 30-day period per restricted fund.

#### Effective Date:

Trades on or after August 1, 2004.

#### Administration:

- NRS will generate on-going trading reports indicating individual participant trades by restricted fund.
- If a participant has five or more trades in one rolling 30-day

*period into/out of an individual restricted fund, he/she will receive a warning letter explaining the trading restrictions and consequences of the Policy.*

- If after issuance of the warning letter a participant has five or more trades in any rolling 30-day period thereafter (which means, for the entire period of investment of an account under the Plans) into/out of the restricted fund identified in the warning letter, thereafter, he/she may direct trading in all restricted funds only by U.S. mail.

## Join us for Expo 2004!

The Authority is delighted Governor Ernie Fletcher and Dept. of Personnel Commissioner Bob Ramsey, Sr. have authorized us to continue to hold our participant Investment/ Education Expos. State employees will continue to be afforded up to 2 hours paid time off to attend, plus reasonable travel time. Numbered certificates of attendance will be awarded to Expo participants and employees **must** return these to their supervisor immediately following the Expo in order to receive the paid time off.

Two duplicate sessions will be held each day, one at 9:00 a.m., the other at 1:30 p.m. Participants should attend only one session, as the same programs will be presented during both. Our theme will be 'Designing a Portfolio For Any Weather'. Representatives from all fund families currently in our Spectrum of Investment Options are scheduled to attend.

Please note the important dates and locations below. See you at Expo 2004!

September 22 – Frankfort  
Farnham Dudgeon Civic Center  
405 Mero Street  
502.564.5335 (for directions)

September 23 – Louisville  
U of L Shelby Campus  
Founder's Union Building  
9001 Shelbyville Rd.  
502.582.0365 (for directions)

### Fixed Contract Fund Rate

A blended net crediting rate that will yield **3.75%** will be credited for the Third Quarter of 2004. The rate was **3.75%** for the previous quarter.

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# Confused about rollovers?

Choosing whether to transfer (rollover) funds from your Authority account to another eligible plan or IRA can be rather confusing, especially when you are getting so many mixed messages. It pays to educate yourself on the facts before making such an important decision.

The ability to transfer assets between retirement plans is one of the many new benefits available to you as a result of the Economic Growth and Tax Relief Reconciliation Act of 2001. For many Kentucky Deferred Compensation Authority participants, however, an outgoing rollover may not offer the best choice.

There are many factors you should consider before transferring your funds out of the Authority's Plans. As an example, funds in 457 plans are not subject to distribution tax penalties if taken before age 59½. By contrast, funds in 401(a), 401(k), 403(b) and IRA's are subject to these early withdrawal penalties, unless you separate from service in the year you attain age 55 (or at a later date). Also, once 457 funds are transferred to these other types of accounts they automatically become subject to these same early distribution penalties before age 59½.

You also need to be fully aware of the fees being charged by the fund to which you are considering rolling your Kentucky Deferred Compensation account dollars. The Authority's fees are fully disclosed to you and are quite low.

As always, if you have any questions you may call the Kentucky Deferred Compensation office toll-free at 1.800.542.2667 (M-F, 8 a.m. to 5 p.m., ET).

## Upcoming Fund Closures

Effective August 20, 2004 the following mutual funds will be closed and removed from the Spectrum of Investment Options:

Close and Remove	Map to (Default)
Fidelity Magellan Fund	Fidelity Contrafund
INVESCO Small Co. Growth Fund (Investors Class)	Brown Capital Mgmt. Small Co. Fund
Janus Worldwide Fund	American Funds – EuroPacific Growth Fund (Class R4)
Putnam International Equity Fund (Class A)	American Funds – EuroPacific Growth Fund (Class R4)

If you have deferrals going to or existing investments in one or more of these funds you have been sent a 'Reallocation' form you can use to redirect both future deferrals and money on deposit. You can also make changes by calling the Authority at 800.542.2667, or taking action on our web site [www.kentuckydcp.com](http://www.kentuckydcp.com) or by calling our touch-tone voice response unit (SAVER) at 800.793.4401. **If you do not take any action the mapping noted above will occur close of business on August 20, 2004.**

## Board Actions Taken May 26, 2004

- 1) Adopted a new Market Timing Excessive Trading Policy which will become effective August 1, 2004.
- 2) Agreed with Authority staff's recommendation to maintain the current asset fee rate structure for fiscal year 2005.
- 3) Placed MFS Massachusetts Investors Growth Stock Fund (Class A) and Federated International Small Company Fund (Class A) on the Watch List, immediately.
- 4) Following a report on the Audit Request for Proposal process, selected Moore Stephens Potter, LLP to provide auditing services under a new personal services contract to be effective July 1, 2004.
- 5) Following a report on the Legal Request for Proposal process, selected Reed Weitkamp Schell & Vice to provide Authority legal services for the period July 1, 2004 through June 30, 2006.
- 6) Set the next Board meeting date for Wednesday, August 25, 2004 at 9:00 a.m.

## Market Timing (continued from page 1)

### Overview

A mutual fund's ability to manage its long-term investments may be adversely affected when its shares are repeatedly bought and sold in response to short-term market fluctuations. This process is known as market timing. Market timing – here defined as excessive trading activity – is not limited to international funds but may occur in any fund sector where a financial gain can be realized by trading frequently in or out of a fund.

According to the United States Securities and Exchange Commission ("SEC"), market timing may take many forms, and the term refers to arbitrage activity involving frequent buying and selling of mutual fund shares in order to take advantage of the fact that there may be a lag between a change in the value of a mutual fund's portfolio securities and the reflection of that change in the fund's share price. As with any equity-based investment, daily share price (market) fluctuations are typical for a mutual fund investing in stocks or foreign securities.

### Costs

Market timing may generate significant costs to the mutual fund which can result in lower earning for non-timers. These costs can generate lower earning because of higher cash retention as well as foreign exchange rate risks and trading costs associated with frequent buying and selling. The negative effect on investment performance, increased expenses, and the potential for having trades rejected or an investment option restricted resulting from the market timing activities of a few plan participants is detrimental to all other plan participants and is disruptive to Plan investments and administration.

### Risk

While foreign securities may offer special investment opportunities due to information availability with regard to foreign market activity, there are also special risks. For example, the change in value of a foreign currency against the U.S. dollar will result in a change in the U.S. dollar value of securities denominated in that foreign country. According to the SEC, among the risks included are dilution in the value of fund shares held by long-term shareholders, interference with efficient management of the fund's portfolio, and increased brokerage and administrative costs. For example, a fund that invests in overseas markets may be subject to the risks of time-zone arbitrage, according to the SEC.

### Late Trading

*The placement of trades following the close of the New York Stock Exchange, typically 4:00 P.M. Eastern Time, is referred to as late trading and is considered **illegal**.* The policies, procedures and systems of Nationwide Retirement Solutions, Inc. (NRS), the Authority's record keeper, used to administer the Plans are designed to prevent the possibility of late trading. NRS monitors all accounts in accordance with requirements that trades only be accepted on a "price next calculated" basis as

established by individual mutual fund companies. Under current practices, trades initiated and completed prior to 4:00 P.M. Eastern Time on a business day use that day's calculated price. Trades initiated after 4:00 P.M. Eastern Time are given the next day's calculated price.

### Policy

Because of the negative impact of market timing activities on investment performance, mutual funds and other investment product providers to employer-sponsored retirement plans maintain market timing policies under which they often reserve the right to reject purchase or exchange orders for all plan participants and to restrict an investment option's availability. The Authority's website and voice response unit systems, as administered by NRS, have been isolated by NRS to monitor and manage market timing activity. The Authority reserves the right, accordingly, to prohibit exchanges in violation of the Policy or if otherwise prudent to do so.

The Policy seeks to identify those participants who exceed reasonable trading guidelines, educate participants regarding the effect on the fund's ability to maintain investment objectives and monitor ongoing trading activity relative to identified participants.

The Board, with the assistance of its investment consultant, selects investment options designed to meet participants' investment planning objectives without compromising exchange restrictions established by mutual funds and other investment providers consistent with the objective of providing retirement benefits to participants.

The Board intends to continually review and revise this Policy, with the assistance of NRS, to formulate new policies as information and prudence dictates in the best interests of Plan participants. For further information please contact the Authority at **800.542.2667**.

## Customized Service Fees

Effective 7/1/04 the following fees were implemented:

Multiple Unforeseeable Financial Emergencies/  
Hardship Withdrawals – \$75  
Qualified Domestic Relations Orders (QDRO) – \$250  
Transfers made to all retirement systems for  
purchase of service credit – \$75  
Loan Origination Fee – \$75

*Please see the April 2004 Newsletter or call the Authority for details.*

## Internet Password Reset On-Line

You are now able to reset your password on-line. To enable this feature for your account you first must respond to certain Password Key Phrase questions. This must be completed prior to requesting an on-line password reset. For assistance please call 800.653.4632 Option 9.

# Fund Focus

For information only – NOT a recommendation for investment

## Fidelity Contrafund

**Ticker:** FCNTX

**SAVER #** 3268

**Category:** Large Blend

### Investment Strategy

The fund invests primarily in common stocks of companies whose value Fidelity Management & Research Company (FMR) believes is not fully recognized by the public.

Such companies are characterized by one of the following:

- 1) poised to benefit from a turnaround situation relative to company management, industry position, or operational profitability;
- 2) unpopular due to a short-term, nonrecurring circumstance; or
- 3) undervalued relative to other companies in the same industry.

FMR may invest the fund's assets in any type of security, both domestic and foreign, that may produce capital appreciation. This strategy may lead to investments in small and midsize companies, which carry more risk than investments in large, well-established companies.

### Suitability

The fund may be appropriate for aggressive investors who are willing to ride out stock market fluctuations in pursuit of potentially high long-term returns. Investors should be comfortable with stock market investing in general and with the additional risks

associated with foreign markets. Foreign investments incur greater risk than U.S. investments, including political and economic risks and the risk of currency fluctuation. You may have a gain or loss when you sell your shares.

### Objective

The fund seeks capital appreciation.

**Manager:** William Danoff

**Inception:** 05/17/67

**Size:** \$37,677.2M

### Manager Profile:

Will Danoff joined Fidelity as an equity research analyst in 1986 and subsequently became portfolio manager for Fidelity Select Retailing Portfolio. He has served as a portfolio assistant on Fidelity Magellan Fund and as leader of the Specialized Growth Group. Mr. Danoff was appointed manager of Fidelity Contrafund in 1990 and of Fidelity VIP: Contrafund at its inception in January 1995.

Education: B.A., Harvard University, 1982; M.B.A., The Wharton School, University of Pennsylvania, 1986

### Top Ten Holdings

BERKSHIRE HATHAWAY INC CL A  
3M CO  
AVON PRODUCTS INC  
ENCANA CORP  
COLGATE-PALMOLIVE CO  
GENENTECH INC  
SAMSUNG ELECTRONICS CO LTD  
YAHOO INC  
ZIMMER HOLDINGS INC  
NEWMONT MINING COPR  
19.6 % of total assets (Total Holdings 608)

### Top Five Sectors (%)

Consumer Discretionary	15.9
Financials	15.8
Health Care	15.6
Information Technology	13.3
Industrials	10.7

### Portfolio Allocation (%)

Equities	94.3
Convertibles	0.4



## Contact Us!

Telephone Number(s):

**502-573-4494** or  
**800-542-2667**

On the Web:

[www.kentuckydcp.com](http://www.kentuckydcp.com)  
[www.personnel.ky.gov/dcomp.htm](http://www.personnel.ky.gov/dcomp.htm)

Email address:

[persdeferredcomp@ky.gov](mailto:persdeferredcomp@ky.gov)

Fax Number:

**502-573-4494**

Nationwide® Retirement Solutions

Web-Site Help Center:

**800-653-4632, option 9**